

CARTER LEDYARD & MILBURN LLP
William F. Sondericker (NY State Bar No. 1571439)
Sondericker@clm.com
Keith D. Nowak (NY State Bar No. 1628825)
Nowak@clm.com
2 Wall Street
New York, New York 10005
Telephone: (212) 732-3200
Facsimile: (212) 732-3232

GREENBERG, WHITCOMBE & TAKEUCHI, LLP
Derrick K. Takeuchi (CA Bar No. 97878)
dtakeuchi@gwtllp.com
21515 Hawthorne Boulevard, Suite 450
Torrance, California 90503
Telephone: (310) 540-2000
Facsimile: (310) 540-6609

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

ISTA PHARMACEUTICALS, INC.,

Plaintiff,

v.

SENJU PHARMACEUTICAL CO., LTD.,

Defendant.

Case No. CV10-3219 GW (JEM)

**REPLY MEMORANDUM OF LAW
IN SUPPORT OF DEFENDANT'S
MOTION TO DISMISS OR TO
STAY THE ACTION PENDING
ARBITRATION**

TABLE OF CONTENTS

	<u>Page No.</u>
TABLE OF AUTHORITIES	ii
PRELIMINARY STATEMENT	1
ARGUMENT	4
I. ISTA ASSUMED THE ARBITRATION PROVISION BY ASSIGNMENT	4
A. The License Agreement and the APA	4
B. Law of Assignment.....	10
II. ISTA ASSUMED THE ARBITRATION PROVISION BY ADOPTION IN THE FIRST AMENDMENT AS A “PARTY” TO THE AGREEMENT.....	18
III. ISTA IS EQUITABLY ESTOPPED FROM DISCLAIMING THE ARBITRATION PROVISION.....	21
IV. ISTA’S ANTITRUST CLAIM SHOULD BE ARBITRATED.....	23
CONCLUSION	25

TABLE OF AUTHORITIES

FEDERAL CASES

<u>Ahtna Government Services Corp. v. 52 Rausch, LLC,</u> 2003 WL 403359 (N.D.Cal. Feb. 19, 2003).....	12
<u>America Bureau of Shipping v. Tencara Shipyard S.P.A.,</u> 170 F.3d 349 (2d Cir. 1999)	23
<u>Banque De Paris et des Pays-Bas v. Amoco Oil Co.,</u> 573 F. Supp. 1464 (S.D.N.Y. 1983)	15
<u>Brulotte v. Thys</u> , 379 U.S. 29 (1964)	17, 23
<u>Case Int'l Co. v. T.L.James & Co., Inc.,</u> 907 F.2d 65 (8th Cir. 1990)	12
<u>Datatreasury Corp. v. Wells Fargo & Co.,</u> 522 F.3d 1368 (Fed. Cir. 2008)	13, 14
<u>Delmore v. Ricoh Americas Corp.</u> , 667 F. Supp. 2d at 1135 (N.D.Cal. 2009)	11, 12
<u>E.I. DuPont de Nemours & Co. v. Rhone Poulenc Fiber & Resin</u> <u>Intermediaries</u> , 269 F.3d 187 (3d Cir. 2001).....	21
<u>GMAC Commercial Credit LLC v. Springs Industries, Inc.,</u> 171 F. Supp. 2d 209 (S.D.N.Y. 2001)	4, 15, 17
<u>Gruntal & Co., Inc. v. Steinberg,</u> 854 F.Supp. 324 (D.N.J. 1994).....	12
<u>International Paper Co. v. Schwabedissen Maschinen & Anlagen,</u> 206 F.3d 411 (4th Cir. 2000)	22
<u>In re Kmart Corp.</u> , 290 B.R. 614 (Bankr. N.D. Ill. 2003).....	13, 14-15
<u>Lachmar v. Trunkline</u> , 753 F.2d 8 (2d Cir. 1985)	12

1		
2	<u>Legacy Wireless Serv., Inc. v. Human Capital, LLC,</u>	
3	314 F. Supp. 2d 1045 (D.Or. 2004).....	21, 23
4	<u>Letizia v. Prudential Bache Securities, Inc.,</u>	
5	802 F.2d 1185 (9th Cir. 1986).....	4
6	<u>Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.,</u>	
7	473 U.S. 614 (1985)	24
8	<u>Pullen v. Victory Woodwork, Inc.,</u>	
9	2007 WL 1847633 (E.D.Cal. June 27, 2007).....	21
10	<u>Ryan, Beck & Co., LLC v. Fakh,</u>	
11	268 F. Supp. 2d 210 (E.D.N.Y. 2003).....	11, 22, 23
12	<u>Shainin II, LLC v. Allen,</u>	
13	2006 WL 2473495 (W.D. Wash. Aug. 28, 2006)	11
14	<u>Simula, Inc. v. Autoliv, Inc.,</u>	
15	175 F.3d 716 (9th Cir. 1999).....	24, 25
16	<u>Shaw Group, Inc. v. Triplefine International Corp.,</u>	
17	2001 WL 883076 (S.D.N.Y. Aug. 3, 2001)	11, 12
18	<u>Szczepanik v. Through Transport Mutual Insurance Association, Ltd.,</u>	
19	2008 WL 2166193 (D.N.J. May 21, 2008)	15
20	<u>Thomson-CSF, S.A. v. American Arbitration Association,</u>	
21	64 F.3d 773 (2d Cir. 1995)	4
22	<u>Trippe Manufacturing Co. v. Niles Audio Corp.,</u>	
23	401 F.3d 529 (3d Cir. 2005)	4, 11, 15, 16, 17
24	<u>World Group Securities, Inc. v. Allen,</u> 2007 WL 4168572	
25	(D.Ariz. Nov. 20, 2007).....	22, 23
26		
27		
28		

STATE CASES

	<u>Armstrong C. v. Shell,</u> 98 Cal. App. 769 (1929).....	12
--	--	----

<u>NORCAL Mutual Insurance Co. v. Newton,</u> 84 Cal. App. 4th 64 (2000).....	21, 23
<u>Saturn Constr. Corp Co., Inc. v. Landis & Gyr Powers, Inc.,</u> 656 N.Y.S.2d 367 (2d Dept. 1997).....	12
<u>Wonder Works Constr. Corp. v. R.C. Dolner, Inc.,</u> 901 N.Y.S.2d 30 (1st Dept. 2010).....	12

FEDERAL STATUTES

Fed. R. Civ. P. 12(b)(1) and (6).....	1
Federal Arbitration Act.....	1

1 Senju Pharmaceutical Co., Ltd. (“Senju”) respectfully submits this reply
 2 memorandum of law in further support of its motion to dismiss the First Amended
 3 Complaint of ISTA Pharmaceuticals, Inc. (“ISTA”) pursuant to Fed. R. Civ. P. 12(b)(1)
 4 and (6), or, alternatively, for a stay of this action pursuant to section 3 of the Federal
 5 Arbitration Act pending arbitration (the “Motion”), and in response to ISTA’s brief in
 6 opposition to the Motion dated August 2, 2010 (“ISTA Brief”), the Declaration of
 7 Vicente Anido, Jr., dated July 30, 2010 (“Anido Declaration”), and ISTA’s Objections to
 8 Evidence dated August 2, 2010 (“Objections”).¹

12 PRELIMINARY STATEMENT

13
 14 ISTA is bound by the arbitration provision of the License Agreement because it (1)
 15 assumed by purchase and assignment all of the obligations of the License Agreement,
 16 including the arbitration provision, in an Asset Purchase Agreement with AcSentient
 17 dated May 3, 2002 (the “APA”), (2) assumed by adoption in the First Amendment to the
 18 License Agreement all of the provisions of the Agreement, including the arbitration
 19 provision, as a “party” to the Agreement, and (3) operated and benefited from the
 20
 21

22
 23 ¹ This reply adopts the defined terms in Senju’s moving brief dated July 8, 2010, which
 24 shall be referred to herein as the “Senju Brief.” The declarations of Shuji Matsumura
 25 dated August 5, 2010 (“Matsumura Reply Declaration”) and Derrick K. Takeuchi dated
 26 August 9, 2010 (“Takeuchi Declaration”), Request for Judicial Notice, and the affidavit
 27 of John T. Musante dated August 6, 2010 (“Musante Affidavit”) are respectfully
 28 submitted with this reply. Mr. Matsumura’s Affidavit dated July 8, 2010 shall be referred
 to herein as the “Matsumura Affidavit.” Concurrently with the filing of this reply and
 supporting papers, Senju has respectfully submitted to the Court copies of the documents
 on a CD-ROM in PDF format. A copy of the CD-ROM has also been provided to

1 provisions of the Agreement for eight years and therefore is equitably estopped from
2 disclaiming the arbitration provision now.

3
4 ISTA argues that it is not obligated to arbitrate because it “never signed and never
5 assumed” the arbitration provision of the License Agreement. ISTA Brief at 1, 12-14.
6 While ISTA concedes that it assumed all of AcSentient’s rights under the Agreement,
7 ISTA argues that it only assumed the “performance and payment obligations” of the
8 Agreement. According to ISTA, “performance and payment obligations” do not include
9 the alleged “procedural” obligation to arbitrate. ISTA Brief at 14. ISTA further argues
10 that the First Amendment to the License Agreement ratifies its assumption of only
11 “certain” liabilities.² ISTA Brief at 15. As explained below, performance obligations
12 means all obligations of an agreement, including the duty to arbitrate under § 17.02 of the
13 assumed License Agreement. In fact, relevant case law rejects avoidance of arbitration
14 provisions of agreements based upon alleged assumption of only “certain” obligations in
15 the agreement. Moreover, the provisions of the First Amendment do not “ratify” ISTA’s
16 assumption of only “certain” obligations, but rather confirm that ISTA replaced
17 AcSentient as a **Party** to the License Agreement, with no exclusion of § 17.02.
18
19
20
21
22

23 Alternatively, ISTA argues that even if AcSentient assigned all of the obligations
24 of the License Agreement to ISTA in the APA, a broad assignment of obligations of an
25
26 Plaintiff’s counsel.

27 ² ISTA does not identify what these “certain” liabilities allegedly are and fails to identify
28 what liabilities were allegedly not assumed.

1 agreement does not include the agreement's arbitration provision "as a matter of law."
2
3 ISTA Brief at 14, 18-20. According to ISTA, it can only be bound by the License
4 Agreement's arbitration provision by an independent and expressed written assumption
5 of the provision. ISTA Brief at 18. This is patently incorrect. Applicable case law holds
6 that an assignee of an agreement is bound by its arbitration provision even if it has not
7 independently and expressly assumed the provision. The alleged "overwhelming" case
8 law cited by ISTA is not overwhelming, is inapplicable, and does not support ISTA's
9
10 professed legal position.
11

12 Based on these arguments, ISTA asks the Court to hold that (1) the Court not the
13 ICC arbitrators must decide whether an agreement to arbitrate exists with Senju, (2) the
14 arbitration provision and its reference to the ICC Rules is irrelevant, (3) the federal policy
15 favoring arbitration does not apply, (4) ISTA is not bound by the arbitration provision of
16 the License Agreement, and (5) ISTA cannot be compelled to arbitrate. ISTA Brief at 1.
17
18 Because ISTA does not challenge the scope of the arbitration agreement, but rather its
19 existence, Senju agrees that the Court should determine whether an agreement to arbitrate
20 exists, that the ICC Rules are not relevant to determining whether an agreement exists,³
21
22
23

24
25 ³ In section III.F.4 of the ISTA Brief, ISTA argues that its antitrust claim should be
26 decided by the Court for public policy reasons. To the extent this argument relates to the
27 scope of the arbitration agreement and not its existence, the ICC arbitrators should
28 determine this issue pursuant to section 6(2) of the ICC rules, which are incorporated by
reference in the arbitration provision, and in accordance with the strong federal policy
favoring arbitration of international disputes. See Senju Brief, Point I.

1 and that the policy favoring arbitration will not apply if an agreement does not exist.⁴
 2 ISTA, however, as explained below, is bound by the arbitration provision of the License
 3 Agreement and should be barred from proceeding in this action in favor of arbitration.
 4

5 **ARGUMENT**

6
 7 The determination of whether a non-signatory is bound by an arbitration agreement
 8 is governed by federal substantive law on arbitrability. Letizia v. Prudential Bache
 9 Securities, Inc., 802 F.2d 1185, 1187 (9th Cir. 1986). Under federal law, a non-signatory
 10 may be bound by an arbitration agreement under ordinary contract and agency principles,
 11 including: (1) assumption; (2) equitable estoppel; (3) incorporation by reference; (4)
 12 agency; and (5) alter ego or veil piercing. Thomson-CSF, S.A. v. American Arbitration
 13 Ass'n, 64 F.3d 773, 776 (2d Cir. 1995); Trippe Manufacturing Co. v. Niles Audio Corp.,
 14 401 F.3d 529, 532 (3d Cir. 2005). ISTA is bound by the arbitration provision of the
 15 License Agreement under the principles of assumption and equitable estoppel.
 16
 17
 18
 19

20 **I.**

21 **ISTA ASSUMED THE ARBITRATION PROVISION BY ASSIGNMENT**

22 **A. The License Agreement and the APA**

23 The terms of the License Agreement and the APA establish that AcSentient
 24 assigned the entire Agreement to ISTA, with no exclusion of the Agreement's arbitration
 25

26
 27 ⁴ In interpreting an arbitration agreement, however, due regard must be given to the
 28 federal policy favoring arbitration. GMAC Commercial Credit LLC v. Springs Industries,

1 provision. Article 20 of the License Agreement prohibited AcSentient from assigning the
 2 Agreement without Senju's consent unless AcSentient assigned the entire Agreement in
 3 connection with the sale of substantially all of its assets. Article 20 provides:

4
 5 Article 20 – Non-Assignability

6 This **License Agreement** is personal to the Parties hereto and
 7 shall not be assignable to any Third Party by either Party
 8 without the prior express written consent of the other Party,
 9 such consent not to be unreasonably withheld; provided,
 10 however, subject to section 16.06, that no such approval shall
 11 be required from SENJU if this **License Agreement** is assigned
 12 in connection with the sale of all or substantially all of the
 assets or stock of ACSSENTIENT, whether by merger,
 acquisition or otherwise.

13 Matsumura Affidavit, Exhibit B, Article 20 (emphasis added). Article 20 does not make
 14 a distinction between “performance” and “procedural” obligations, and only permits the
 15 assignment of the entire “License Agreement,” not portions of it. Anything less than a
 16 total assignment would have required Senju's consent. If AcSentient assigned more than
 17 what it had the right to assign under Article 20, the assignment would be invalid.

18
 19 On May 3, 2002, AcSentient assigned the **entire** License Agreement to ISTA in
 20 connection with its sale of substantially all of its assets to ISTA. The APA sets forth the
 21 terms of the sale, including defining the assets sold. Section 1.01 of the APA provides in
 22 relevant part:
 23
 24

25 “Assets” means all of the Products, Data, INDs (including the
 26 Orphan Drug Designation), Intellectual Property, Know-How,
 27 **License Agreements**, Books and Records, Contracts to which

28 Inc., 171 F.Supp.2d 209, 214 (S.D.N.Y. 2001).

Seller is a party relating to any of the foregoing, and all rights or assets owned or controlled by Seller relating to the Compounds.

“Assumed Liabilities” means the **performance and payment obligations** imposed on Seller under the **License Agreements**, **including, but not limited to**, the obligation to make milestone and royalty payments and obligations to conduct pre-clinical and clinical studies and to seek regulatory approval, all as related to the Compounds and pursuant to the terms of the **License Agreements**.

“License Agreements” means the **Senju License Agreements** and the **EVMS License Agreement**.

“Senju License Agreement(s)” means the **Bromfenac License Agreement** and the Agreement by and between Senju and Seller dated April 17, 2002, including in each case any amendments thereof.

“Bromfenac License Agreement” means the **License Agreement** by and between Senju and [AcSentient] dated March 7, 2002.

Anido Declaration, Exhibit B at § 1.01 (emphasis added). As shown above, multiple assets were sold to ISTA in the APA, including two license agreements, one with Senju and the other with the Eastern Virginia Medical School (“EVMS”).

With respect to the License Agreement with Senju, the APA does not contain any limitations on the assignment of obligations, or any limitation on the assignment of the duty to arbitrate. The only limitation in the APA on any of the obligations of the two license agreements, concerns the EVMS License Agreement. The APA provides:

Assignment of Certain Rights and Obligations under Agreements At the Closing, Seller shall assign to Buyer and

Buyer **shall assume the rights and obligations to the License Agreements**, subject to the delivery by Seller to Buyer of a written agreement in a form satisfactory to Buyer, signed by the Eastern Virginia Medical School, pursuant to which Eastern Virginia Medical School consents to the transfer and assignment of the EVMS License Agreement to Buyer. Notwithstanding Buyer's assumption of such rights and obligations, Seller shall solely maintain responsibility, and Buyer specifically does not assume any responsibility, for the obligation under Section 2.7 of the EVMS License Agreement to pay 10% of all income or other compensation received or provided as a result of any transfer or assignment, to the extent such obligation may be applicable to this Agreement and the transactions contemplated hereby.

Anido Declaration, Exhibit B at § 5.01 (emphasis added). Thus, § 5.01 establishes that ISTA assumed all of the rights and obligations of the two license agreements, except for the obligation to make certain payments under the EVMS License Agreement. The two license agreements otherwise remained "in full force and effect **without limitation**, modification or alteration" at the closing of the APA. Anido Declaration, Exhibit B at § 3.06(b) (emphasis added). Section 5.01's heading referring to the assignment of "certain" rights and obligations under the agreements is a reference to the limitation under the EVMS License Agreement, and not to ISTA's obligation to arbitrate under the License Agreement with Senju, as ISTA now contends. Musante Affidavit, ¶¶ 5-7.⁵

⁵ ISTA conveniently omits the specific disclaimer of the payment obligation under the EVMS License Agreement while quoting § 5.01, disingenuously implying at the same time that it assumed only "certain" obligations of the Senju License Agreement. ISTA Brief at 13-14.

1 Senju is not a party to the APA. John Musante, AcSentient's Chief Business
2 Officer, notified Senju of AcSentient's sale by letter dated May 4, 2002, which stated that
3 AcSentient assigned "all the rights and obligations" of the Agreement to ISTA. Musante
4 Affidavit, ¶ 7, Exhibit A. Mr. Musante confirms AcSentient's assignment of the entire
5 Agreement to ISTA in his affidavit submitted with this reply. Musante Affidavit, ¶¶ 2, 6.

6
7
8 ISTA also confirmed the assignment of the entire Agreement to it in its public
9 filings with the SEC. ISTA's Form 10K for the year 2003 states, "[t]he **full rights and**
10 **obligations** of AcSentient under both license agreements were transferred to ISTA as a
11 part of the acquisition agreement between ISTA and AcSentient, with such transfer
12 approved by Senju." Takeuchi Declaration, Exhibit B at 9 (emphasis added). ISTA's
13 10K for 2009 states, "[t]he **full rights and obligations** of AcSentient under the Senju
14 license agreements were assigned to us as a part of the acquisition agreement between us
15 and AcSentient, with such transfer approved by Senju." Takeuchi Declaration, Exhibit A
16 at 5 (emphasis added). One may thus infer that ISTA only decided that it had not
17 assumed the arbitration provision, when it stopped paying royalties and sued Senju in
18 2010. It comes with **ill grace** for ISTA to make its disclaimer in this litigation in the face
19 of its own official documents, filed with the SEC as recently as 2009 and certified to be
20 truthful and not misleading, that make directly contrary representations to the public and
21 ISTA's shareholders.

1 ISTA compounds its delusive assertions with its sworn testimony that “it was not
 2 its intent to arbitrate any disputes with Senju” and that “it never signed the License
 3 Agreement or any other agreement with Senju that contains an arbitration provision.”
 4 Anido Declaration, ¶¶ 4, 6. First, ISTA’s intentions are immaterial. The unambiguous
 5 terms of the APA establish its assumption of the entire Agreement. Second, had ISTA
 6 intended not to arbitrate disputes with Senju, it knew how to disclaim the obligation in
 7 the APA, having expressly disclaimed the payment obligation of the EVMS License in §
 8 5.01 of the APA. Finally, ISTA’s aforesaid sworn testimony of not having made other
 9 arbitration agreements with Senju is squarely **impeached** by documentary evidence to the
 10 contrary. ISTA has signed six other agreements with Senju, four of which are license
 11 agreements, that contain arbitration provisions similar to the provision of the License
 12 Agreement. Matsumura Reply Declaration, Exhibits A (Article 18), B (Article 26), C
 13 (Article 24), D (Article 23), E (Article 23), F (Article 27).⁶

14 In sum, ISTA’s 10Ks and the false Anido Declaration **discredit** the heart of
 15 ISTA’s assertions. AcSentient assigned all of its rights and obligations under the License
 16 Agreement to ISTA, including the duty to arbitrate. There is no provision in the APA
 17 that excludes the arbitration provision. In fact, the APA always refers to the entire
 18 Agreement and states that it will be in “full force and effect without limitation” at the
 19 closing of the APA. Anido Declaration, Exhibit B at § 3.06. Both AcSentient and ISTA
 20

21
 22
 23
 24
 25
 26
 27
 28

⁶Mr. Anido signed three of these agreements.

1 confirmed the assignment of the entire Agreement. ISTA filed 10K Statements
 2 confirming the assignment of the entire Agreement, which are required to be truthful and
 3 not misleading under Rule 10b(5) of the Securities Exchange Act. The first and only
 4 time ISTA disputes its duty to arbitrate is in this litigation. It is thus beyond dispute that
 5 ISTA assumed the License Agreement with its arbitration provision by assignment in the
 6 APA.⁷

9 **B. Law of Assignment**

10 When an assignee assumes the obligations of an assignor under an agreement, it is
 11 bound by the arbitration clause of the agreement, even if the assignee has not expressly
 12

14 ⁷ ISTA argues that it did not assume AcSentient's obligations under License Agreement
 15 in the APA, but rather in the Assignment and Assumption Agreement dated May 9, 2002
 16 ("AAA"), the date of the closing. ISTA Brief at 13. The AAA provides in relevant part:

17 1.1 Seller hereby sells, transfers, assigns, conveys and delivers to, and
 18 vests in Buyer, all of its right, title and interest in and to the Assets, pursuant
 19 to and subject to all representations, warranties, covenants, conditions, and
 20 all other agreements contained in the [APA], and Buyer hereby assumes and
 21 agrees to perform and discharge, in due course, only the Assumed
 Liabilities.

22 1.2 This Agreement is intended to make effective the assignment of the
 23 Assets and the assumption of the Assumed Liabilities. Nothing herein is
 24 intended to supersede or modify any provisions of the [APA].

25 The AAA effectuates the assignment of the "Assumed Liabilities" as defined in the APA,
 26 including the several license agreements, and confirms the provisions and representations
 27 of the APA at the time of the closing. It does not effect the above analysis of the
 28 assignment of the License Agreement under the provisions of the APA in any way. Thus,
 ISTA's argument is a distinction without a difference.

1 assumed the arbitration clause. See, e.g., Trippe Manufacturing Co. v. Niles Audio
 2 Corp., 401 F.3d 529, 533 (3d Cir. 2005) (Alito J.) (broad assignment of agreement
 3 includes arbitration clause) Delmore v. Ricoh Americas Corp., 667 F.Supp2d 1129, 1135
 4 (N.D.Cal. 2009) (same); Shainin II, LLC v. Allen, 2006 WL 2473495, *5 (W.D. Wash.
 5 Aug. 28, 2006) (same); Ryan, Beck & Co., LLC v. Fakihi, 268 F.Supp.2d 210, 219-20
 6 (E.D.N.Y. 2003) (same); Shaw Group, Inc. v. Triplefine Int'l Corp., 2001 WL 883076,
 7 *1-2 (S.D.N.Y. Aug. 3, 2001) (same).

8
 9
 10
 11 In Shaw, plaintiff acquired most of the assets of a debtor through a bankruptcy
 12 sale, including the debtor's representation agreement with the defendant, which contained
 13 an arbitration provision requiring resolution of disputes through ICC arbitration. After
 14 defendant commenced an arbitration against plaintiff, plaintiff moved to stay the
 15 arbitration on the ground that it was not a signatory to the representation agreement.
 16 Applying Thomson, the Court held that plaintiff had acquired the representation
 17 agreement when it purchased most of the debtor's assets in the bankruptcy sale, and thus
 18 it assumed the agreement and its arbitration provision, even though plaintiff had not
 19 independently and expressly assumed the arbitration provision. Shaw, 2001 WL 883076,
 20 *1-2.⁸

21 Here, as in Shaw, ISTA acquired substantially all of AcSentient's assets,

22
 23
 24
 25
 26 ⁸ ISTA attempts to distinguish Shaw by stating that "both litigants in that case were
 27 original signatories to an agreement with a broad arbitration provision." ISTA Brief at 9.
 28 ISTA grossly misstates the facts of Shaw. In Shaw, plaintiff assumed the agreement
 without signing it when it was held to have purchased the debtor-signatory's assets in a
 bankruptcy sale – a situation comparable to ISTA's purchase of assets from AcSentient.

1 including the License Agreement, through the APA. Thus, ISTA assumed the License
 2 Agreement and its arbitration provision, even though it did not independently and
 3 expressly assume the arbitration provision. Shaw, 2001 WL 883076, *1-2; Delmore, 667
 4 F.Supp.2d at 1135 (N.D.Cal. 2009).⁹

5
 6
 7 ISTA argues that it assumed only the “performance and payment obligations”
 8 under the Agreement, and that such obligations do not include “procedural obligations,”
 9

10 ⁹ Despite the holdings in these cases, ISTA still argues that an independent and express
 11 written consent is required because of “overwhelming” case law. ISTA Brief at 18.
 12 ISTA’s cases are inapposite. In Lachmar v. Trunkline, the assignee was granted a
 13 security interests in the assignor’s rights but did not assume any obligations with respect
 14 to the agreement. 753 F.2d 8, 9-10 (2d Cir. 1985). The defendant In Armstrong C. v.
 15 Shell, also did not assume any obligations. 98 Cal. App. 769, 775-78 (1929). Similarly,
 16 in Gruntal & Co., Inc. v. Steinberg, the assignee expressly disclaimed liability for the
 17 assignor’s obligations. 854 F.Supp. 324, 336 (D.N.J. 1994). Here, in contrast, ISTA
 18 assumed all of the obligations of the License Agreement in the APA, therefore, Lachmar,
 19 Armstrong, and Gruntal do not apply. Wonder Works Constr. Corp. v. R.C. Dolner, Inc.,
 20 Saturn Constr. Corp Co., Inc. v. Landis & Gyr Powers, Inc., and Case Int’l Co. v.
 21 T.L.James & Co., Inc., are construction cases where the general contractors attempted to
 22 bind subcontractors to the arbitration provisions in their prime contracts, arguing that the
 23 arbitration provisions in the prime contracts were incorporated by reference by general
 24 language in the subcontracts. Wonder, 901 N.Y.S.2d 30 (1st Dept. 2010); Saturn, 656
 25 N.Y.S.2d 367 (2d Dept. 1997); Case, 907 F.2d 65 (8th Cir. 1990). This is not a
 26 construction case involving subcontracts, but rather a case concerning the assignment of
 27 assets in a purchase agreement. It does not involve incorporation by reference of
 28 construction work, but rather the assignment of all obligations under a license in an asset
 purchase agreement. Construction cases with subcontracts are neither on point nor
 relevant. See Ahtna Government Services Corp. v. 52 Rausch, LLC, 2003 WL 403359,
 *9-12 (N.D.Cal. Feb. 19, 2003) (discussing difference between assignees and
 subcontractors, and still holding subcontractor bound to arbitration provision because it
 held itself out as general contractor, agreed to perform terms of the prime contract, and
 received the benefits of the prime contract). Here, ISTA assumed the entire License
 Agreement, agreed to perform its obligations and benefited from the Agreement for the
 past eight years. It is therefore bound by the Agreement’s arbitration provision.

1 such as arbitration. ISTA Brief at 14 (citing Datatreasury Corp. v. Wells Fargo & Co.,
2 522 F.3d 1368, 1372-73 and In re Kmart Corp., 290 B.R. 614, 618 (Bankr. N.D. Ill.
3 2003)). ISTA is wrong as a matter of law. To “perform” under a contract is to
4 accomplish it according to its terms. “The term applies to any action in discharge of a
5 contract other than payment.” BLACK’S LAW DICTIONARY (3d. ed. 1933). In other words,
6 “a contractual duty is discharged by performance.” CALAMARI AND PERILLO ON
7 CONTRACTS, § 21.17 (6th ed. 2009). Thus, “performance” by its very definition, includes
8 all of the obligations of an agreement other than payment, including so called
9 “procedural” obligations. Moreover, Senju is unaware of any case that makes the
10 distinction between “performance” and “procedural” obligations in a patent license
11 agreement. ISTA’s cases do not make this distinction either.

12
13 In Datatreasury, plaintiff purchased four patents from a software manufacturer
14 (“WMR”), one of which was subject to a license agreement between WMR and
15 defendants’ subsidiary. Datatreasury, 522 F.3d at 1370-71. Neither plaintiff nor
16 defendants signed the agreement or participated in the negotiation of its terms. Id. at
17 1373. Contrary to ISTA’s version of the facts, WMR did not assign the license
18 agreement to plaintiff, it assigned only the four patents. In fact, assignment of the
19 agreement was prohibited without prior consent. Id. at 1371. Plaintiff sued defendants
20 for infringement of all four patents. Defendants then moved to stay the action pending
21 arbitration pursuant to the arbitration provision in the license agreement, citing cases that

1 stood for the general proposition that the owner of a patent cannot transfer an interest
2 greater than what it possesses. Id. at 1371. Contrary to ISTA's version of the facts, the
3 defendants did not argue that plaintiff assumed the license agreement, but rather that the
4 obligation to arbitrate "runs with the patent." Id. at 1372. The Court denied defendants'
5 motion on the ground that neither party signed the license agreement. Id. at 1373. In
6 dicta, the Court distinguished defendants' cases stating that "the cases do not support a
7 conclusion that procedural terms of a license agreement unrelated to the actual use of the
8 patent (e.g. an arbitration clause) are binding on a subsequent owner of the patent." Id. at
9 1372-73.

13
14 ISTA misstates the holding of Datatreasury by stating that the case held: "an
15 obligation to arbitrate in a patent license agreement is not a performance obligation, but
16 rather a 'procedural obligation,' which is not assumed even when the entire license
17 agreement is assumed." ISTA Brief at 14, 19. As explained above, the plaintiff did not
18 assume a license agreement. The defendants did not even argue that plaintiff assumed a
19 license agreement. Assignment of the agreement was prohibited. The court did not hold
20 that performance obligations exclude arbitration. The court did not hold that an
21 agreement's arbitration provision is not assumed when the entire agreement is assumed.
22 Thus, ISTA's reliance on Datatreasury is misplaced, and shows its attempt to
23 manufacture a legal position critical to its argument that has no basis in the law.¹⁰

24
25
26
27
28 ¹⁰ In re Kmart is equally unavailing. In Kmart, the issue was whether debtor's license

Applicable case law also makes clear that the obligation to arbitrate is not a mere “procedural” obligation that will be severed by operation of law from a license agreement acquired by an assignee. Rather, the duty to arbitrate is a contractual remedy that is tied to the substantive rights and obligations assigned under the agreement. Trippe, 401 F.3d at 533; see also Szczepanik v. Through Transport Mutual Insurance Ass’n, Ltd., 2008 WL 2166193, *3-4 (D.N.J. May 21, 2008); GMAC Commercial Credit LLC v. Springs Industries, Inc., 171 F.Supp.2d 209, 214 (S.D.N.Y. 2001); Banque De Paris et des Pays-Bas v. Amoco Oil Co., 573 F.Supp. 1464, 1470 (S.D.N.Y. 1983). To avoid this contractual remedy, the assignee must obtain a waiver from the original party (in this case Senju) to the arbitration agreement. See, e.g., GMAC, 171 F.Supp.2d at 214 (S.D.N.Y. 2001) (citing Banque De Paris, 573 F.Supp. at 1470-71)).

In Trippe, plaintiff acquired several assets of a distributor, including its exclusive distribution agreement with defendant, pursuant to an asset purchase agreement. In the agreement for software was an executory contract, i.e., an ongoing contract that the estate must assume if it wished to retain the benefits of the agreement. The debtor argued that there was no other obligation left to perform under the agreement except payment. The licensor argued that its performance, as well as debtor’s, was substantial and ongoing. In trying to determine if any obligations remained under the agreement, the court referenced some examples of obligations that may be performed under a license agreement such as “reporting, labeling, policing, service, maintenance, and technological upgrades.” In re Kmart Corp., 290 B.R. at 618. ISTA takes that list of examples, along with two other examples pulled from an internet article authored by an Australian lawyer, and concludes that performance obligations do not include the duty to arbitrate. ISTA Brief at 14. Nothing in Kmart or the non-binding internet article says that arbitration is not a performance obligation. ISTA’s resort to these examples of performance do not support the proposition or argument that assumption of performance obligations in the License

1 asset purchase agreement, plaintiff assumed only certain liabilities of the distributor and
2 disclaimed all other liabilities. After defendant commenced an arbitration against
3 plaintiff, plaintiff moved for a judgment declaring that the arbitration provision was not
4 binding because plaintiff was not a signatory to the agreement. Plaintiff argued, as ISTA
5 does here, that no arbitration agreement existed because it only assumed “certain”
6 liabilities of the distributor and it had not independently and expressly assumed the
7 arbitration provision. Justice Alito, then sitting in the Third Circuit, rejected that
8 argument, explaining that the obligation to arbitrate is not distinct and severable from the
9 substantive obligations imposed by the agreement, because “an assignment cannot alter a
10 contract’s bargained for remedial measures, for then the assignment would change the
11 very nature of the rights assigned.” Because the arbitration provision covered all disputes
12 under the agreement, the agreement to arbitrate was coextensive with the substantive
13 obligations assumed by plaintiff in the asset purchase agreement. In other words,
14 plaintiff agreed to arbitrate disputes related to obligations it assumed in the asset purchase
15 agreement. Trippe, 401 F.3d at 532-33.

16 Here, under the License Agreement, ISTA assumed the obligation to pay royalties
17 for the use of Senju’s patent rights, including technical information and know-how as
18 defined in the Agreement. It stopped paying royalties in April 2010, despite continuing
19 to use the patent rights, on the ground that the payment obligation is allegedly illegal and
20

21
22
23
24
25
26
27
28

Agreement excludes the arbitration provision and obligations in the APA.

1 unenforceable under Brulotte v. Thys, 379 U.S. 29 (1964). Senju has demanded payment
2 and ISTA has refused. This dispute is clearly covered by the arbitration provision of the
3 Agreement. Pursuant to Trippe, even if ISTA had not assumed all of the obligations of
4 the License Agreement, which it did, it cannot avoid arbitration of this dispute because
5 arbitration is the remedial measure tied to the use of and payment for the patent and other
6 rights granted under the License Agreement. Thus, ISTA must arbitrate this dispute
7 before the ICC. Trippe, 401 F.3d at 532-33; GMAC, 171 F.Supp.2d at 214.

8
9
10
11 Not only is ISTA's position unsupported by the law, it makes no sense. An
12 assignee of a license agreement cannot pick and choose the obligations it wants to
13 perform under the agreement by simply deeming some obligations "performance" and
14 others "procedural." What other so called "procedural" obligations of the License
15 Agreement has ISTA refused to perform or will it not perform in the future? For
16 example, ISTA argues that it has the right to continue to use Senju's patent rights
17 throughout the term of the License Agreement (without paying royalties because
18 requiring payment is allegedly illegal under Brulotte) pursuant to §§ 23.01 and 23.02,
19 which provide that if a provision of the agreement is held illegal or unenforceable, the
20 remaining provisions remain in effect. Matsumura Affidavit, Exhibit B at §§ 23.01 and
21 23.02. Are these provisions "procedural"? What about § 23.03, which requires the
22 parties in good faith to re-negotiate illegal or unenforceable provisions to correct
23 inequities? Is this section procedural and the others not because ISTA so asserts. ISTA
24
25
26
27
28

has already reserved the right to argue that it has not assumed the choice of law provision of the Agreement. ISTA Brief, fn. 4. Is the confidentiality provision procedural? What about provisions for rights and obligations arising from infringements, and the indemnification, termination, and non-assignability provisions? Under ISTA's theory, Senju, a non-party to the APA, is now left guessing as to what provisions and obligations of ISTA have allegedly been removed from its License Agreement because ISTA asserts that it assumed "performance and payment obligations" but did not assume alleged "procedural obligations." This would be an absurd result. Because ISTA assumed the **entire** Agreement and not just certain undisclosed obligations, it assumed the duty to arbitrate.

II. ISTA ASSUMED THE ARBITRATION PROVISION BY ADOPTION IN THE FIRST AMENDMENT AS A "PARTY" TO THE AGREEMENT

Equally or more importantly, ISTA also assumed the License Agreement and the arbitration provision by **adoption** when it signed the First Amendment, which states that ISTA is a "party" to the Agreement. The First Amendment provides in pertinent part:

WHEREAS, AcSentient, Inc., a Delaware corporation ("AcSentient"), sold and assigned to ISTA **all of AcSentient's rights and certain of its obligations and liabilities** under the License Agreement by and between Senju and AcSentient, dated as of March 7, 2002 regarding bromfenac ophthalmic preparation (the "Agreement"), and **ISTA has therefore become a party** to the Agreement and Senju has elected to **continue the Agreement with ISTA;**

1 WHEREAS, SENJU and ISTA hereby desire to amend the
 2 provisions of the Agreement and desire **to confirm their**
 3 **respective obligations under the Agreement:**

4 NOW, THEREFORE, ISTA and Senju agree that:

5 1. Capitalized wordings used in this Amendment shall have the
 6 meanings set forth in the Agreement. **All references to**
 7 **AcSentient in the Agreement shall hereby refer to ISTA.**

8 5. **Paragraph 16.06 shall be deleted in its entirety.**

9 6. Article 20 of the Agreement shall be amended to read in
 10 its entirety; This License Agreement is personal to the parties
 11 hereto and shall not be assignable, transferable or saleable to
 12 any third Party by either party without the prior express written
 13 consent of the other Party, such consent not to be unreasonable
 14 withheld; provided, however that no such consent shall be
 15 required from Senju if ISTA is merged or acquired by a Third
 16 Party.

17 7. **Unless stated herein, all other terms and conditions of**
 18 **the Agreement shall remain unchanged.**

19 9. This Amendment, taken together with the Agreement,
 20 represent **the entire agreement** of the parties and **shall**
 21 **supersede** any and all previous contracts, arrangements or
 22 understandings between the parties with respect to the
 23 Agreement. Anido Declaration, Exhibit C.

24 The First Amendment is a self-contained agreement signed by ISTA that states that
 25 ISTA became a “party” to the License Agreement. In fact, paragraph 1 changes all
 26 references to AcSentient in the Agreement to ISTA, thus replacing by novation the prior
 27 party with a new party, ISTA. Under the First Amendment, ISTA expressly confirms in
 28 paragraph 7 its obligations under the Agreement, and expressly agrees in paragraph 7 that

1 unless stated in the First Amendment, all other terms of the Agreement remain the
 2 same.¹¹ Changes made to the Agreement in paragraphs 5 and 6 are to § 16.06 (Change of
 3 Control) and Article 20 (Non-Assignability), ironically, provisions on either side of §
 4 17.02, the arbitration provision. These sections, which are arguably procedural under
 5 ISTA's definition, were made in the First Amendment to the License Agreement, only a
 6 few months after the APA. ISTA did not delete § 17.02, the arbitration provision, but
 7 carefully **deleted** § 16.06 and revised Article 20. Finally, the First Amendment provides
 8 in paragraph 9 that the Amendment, with the License Agreement, represents the entire
 9 agreement between the parties. The sum of these provisions is a ratification of the entire
 10 License Agreement, including the arbitration provision. Thus, ISTA assumed the entire
 11 License Agreement by adoption.

12
 13
 14
 15
 16
 17
 18
 19
 20
 21
 22
 23
 24
 25
 26
 27
 28

ISTA argues that the reference in the first whereas clause of the First Amendment to the assignment of "all of AcSentient's rights and certain of its obligations and liabilities" ratifies its assumption of only performance obligations, and not the obligation to arbitrate. ISTA Brief at 15. The reference to "certain" in the whereas clause does no such thing. It merely refers to the heading of § 5.01 of the APA, "Assignment of Certain Rights and Obligations under Agreements," and the fact that a payment obligation of the EVMS License was expressly disclaimed. No exclusion or deletion of § 17.02 – the

¹¹ This same provision appears in the Second Amendment in 2006 and Third Amendment in 2010. The First Amendment substitutes a new party, ISTA, and all of the Amendments substitute new obligations and thus result in novations.

obligation to arbitrate – can be found anywhere in any agreement. See Musante Affidavit, ¶¶ 5-6. Because the First Amendment makes ISTA a party to the Agreement, and ratifies all of the obligations of Agreement, except for the changes made to § 16.06 and Article 20 (and as otherwise stated in the First Amendment), ISTA has adopted the License Agreement in its entirety and has thereby assumed the duty to arbitrate.

III. ISTA IS EQUITABLY ESTOPPED FROM DISCLAIMING THE ARBITRATION PROVISION

Under the principle of equitable estoppel, a party is precluded from claiming the benefits of a contract while simultaneously attempting to avoid the burdens that the contract imposes. See NORCAL Mutual Ins. Co. v. Newton, 84 Cal.App.4th 64, 84 (2000) (“No person can be permitted to adopt that part of an entire transaction which is beneficial to him/her, and then reject its burdens.”); Pullen v. Victory Woodwork, Inc., 2007 WL 1847633, *3 (E.D.Cal. June 27, 2007) (“When a non-signatory seeks to enforce provisions of a contract . . . equitable estoppel must prevents [sic] that entity from avoiding the obligations and burdens that also exist under the contract.”).

Thus, a non-signatory cannot participate in the consummation and performance of an agreement, from which the non-signatory derived benefits, and later avoid the agreement’s arbitration clause. E.I. DuPont de Nemours & Co. v. Rhone Poulenc Fiber & Resin Intermediaries, 269 F.3d 187, 199 (3d Cir. 2001); Legacy Wireless Serv., Inc. v. Human Capital, LLC, 314 F.Supp.2d 1045, 1058 (D.Or. 2004). This rule applies even

1 where the non-signatory disclaims the duty to arbitrate. Ryan, Beck & Co., LLC v.
2 Fakih, 268 F.Supp.2d 210, 217 (E.D.N.Y. 2003).

3
4 In Ryan, plaintiff purchased substantially all of the assets of a broker dealer
5 through an asset purchase agreement, including its customer accounts and related
6 agreements, which contained arbitration provisions. After the customers commenced an
7 arbitration against plaintiff, plaintiff moved for a judgment declaring that it did not have a
8 duty to arbitrate because it was not a signatory to the customer agreements. Id. at 213.
9 The customers argued that since plaintiff purchased all of the assets of the broker dealer
10 including the customer agreements, and had derived the benefits of those agreements,
11 plaintiff was estopped from denying its duty to arbitrate. Id. at 217. Plaintiff argued that
12 it had no duty to arbitrate because the asset acquisition agreement between it and the
13 broker-dealer disclaimed the obligation to arbitrate. Id.

14
15 The court held that the plaintiff was bound by the arbitration provision by equitable
16 estoppel. Id. at 220. Plaintiff derived benefits from the client agreements and,
17 notwithstanding its attempts to disclaim the duty to arbitrate, the court held plaintiff
18 estopped from avoiding the duty to arbitrate. Id. at 220; see also World Group Securities,
19 Inc. v. Allen, 2007 WL 4168572 (D.Ariz. Nov. 20, 2007) (plaintiff who purchased assets,
20 including contracts, was estopped from refusing to comply with arbitration provisions in
21 contracts because plaintiffs received direct benefit under contracts); International Paper
22 Co. v. Schwabedissen Maschinen & Anlagen, 206 F.3d 411, 418 (4th Cir. 2000) (same);
23
24
25
26
27
28

1 Am. Bureau of Shipping v. Tencara Shipyard S.P.A., 170 F.3d 349, 353 (2d Cir. 1999)
 2 (same); Legacy Wireless, 314 F.Supp.2d at 1045 (same); NORCAL, 84 Cal.App.4th at 81
 3 (same).
 4

5 Here, ISTA has marketed and sold Senju's licensed product Bromfenac since 2005,
 6 and has admittedly received the substantial financial benefits of the Agreement during
 7 that time. Anido Declaration, ¶¶ 11-14. In fact, ISTA continues to reap the financial
 8 benefits today, only without paying royalties to Senju, and asks this court to declare that
 9 it has the right to continue to receive benefits without paying royalties for the duration of
 10 the Agreement (notwithstanding the terms of § 23.03, which requires the parties to
 11 renegotiate terms to resolve any inequities). ISTA cannot disclaim the arbitration
 12 provision after reaping the benefits of the Agreement for years, by simply arguing that it
 13 assumed only "certain liabilities" under the License Agreement. Thus, ISTA should be
 14 equitably estopped from disclaiming its duty to arbitrate under the License Agreement.
 15 See Ryan, 268 F.Supp.2d at 217; see also World Group Securities, 2007 WL 4168572 at
 16

17 * 5.
 18
 19

20 21 22 **IV.** 23 **ISTA'S ANTITRUST CLAIM SHOULD BE ARBITRATED**

24 ISTA argues that that its antitrust claim should be decided by litigation before the
 25 Court and not arbitration before the ICC. ISTA Brief at 24. According to ISTA, it will
 26 be deprived of the opportunity to resolve its antitrust claims because the ICC arbitrators
 27 may apply Japanese law and not the "Brulotte rule and the Sherman Act." Id. (citing
 28

1 Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985) (in
2 which the Supreme Court **directed** ICC arbitration)). As set forth in Senju's initial brief,
3 all issues concerning the scope of the arbitration provision should be decided by the
4 arbitrator because the parties have agreed to have all issues decided by ICC arbitration,
5 including issues of arbitrability. Senju Brief, Point I.
6
7

8 If the Court were inclined to decide the issue, the Court of Appeals has held anti-
9 trust claims are arbitrable. Simula, Inc. v. Autoliv, Inc., 175 F.3d 716 (9th Cir. 1999). In
10 Simula, the parties entered into a license agreement, which contained arbitration and
11 choice of law provisions requiring ICC arbitration in Switzerland under Swiss law.
12 Plaintiff sued defendant in Federal Court asserting that defendant's use of the license
13 agreement violated the Sherman Act. Defendant moved to dismiss or alternatively to stay
14 the action pending arbitration. Like ISTA here, plaintiff argued that its antitrust claims
15 should not be arbitrated because the Swiss Arbitration Panel may apply Swiss law instead
16 of U.S. antitrust law, which would deprive it of its remedies under the Sherman Act.
17 Simula, 175 F.3d at 721.
18
19
20
21

22 Relying on Mitsubishi and the liberal policy favoring arbitration of international
23 disputes, the Ninth Circuit affirmed the lower court's order compelling arbitration. The
24 court explained that resolution of the claims would require careful interpretation of the
25 license agreement, which is a job for an arbitrator not the court. The court also found that
26 even if the Swiss arbitration panel applied Swiss law, which it might not, there had been
27
28

1 no showing that Swiss law would not provide plaintiff sufficient protection.
2 Accordingly, the court required plaintiff “to honor its bargain” and arbitrate its antitrust
3 claims. Id.

4
5 In this case, resolution of ISTA's antitrust claims requires interpretation of the
6 License Agreement by the Arbitrators, a responsibility that Simula assigns to the ICC
7 arbitrator. Moreover, like the plaintiff in Simula, ISTA offers no support for its assertion
8 that Japanese law, if applied in an ICC arbitration, would not provide it sufficient
9 antitrust remedies. Thus, the Court should stay this action and ISTA should be required
10 to honor its bargain to arbitrate. Id.

13 CONCLUSION

14
15 For the foregoing reasons, Senju requests that this Court grant its Motion.

16
17 Dated: August 9, 2010

CARTER LEDYARD & MILBURN LLP

18
19 By: /s/
20 William F. Sondericker
21 Keith D. Nowak
22 2 Wall Street
23 New York, New York 10005
24 Telephone: (212) 732-3200
25 Facsimile: (212) 732-3232

26 GREENBERG, WHITCOMBE & TAKEUCHI, LLP
27 Derrick K. Takeuchi
28 21515 Hawthorne Boulevard, Suite 450
Torrance, California 90503
Telephone: (310) 540-2000
Facsimile: (310) 540-6609

Attorneys for Defendant
Senju Pharmaceutical Co., Ltd.